Dairy Marketing Branch

California Dairy Review

A publication serving the California dairy industry for over 12 years

Volume 12 Issue 1 January 2008

In This Issue . . .

Secretary to Convene Special Committee to Consider Whey Factor

In November, the Department announced the decision to the October 10 and 11, 2007 hearing, which implemented changes to the Class 4a/4b pricing formulas including changes to the whey factor and make allowances for cheese and nonfat dry milk. Since the decision announcement, the Department received comments from both producers and processors concerning the whey aspect of the decision, some expressing full support and others expressing opposition.

The Department received a request to consider revising the final hearing decision, however, the Department chose not to change the hearing results, but rather to convene a special committee of producers and processors that will review all possible approaches to developing a whey pricing system that reflects the world markets while not creating severe negative impacts to cheese processors. It is in the long-term best interests of all California dairy producers and processors to consider how a whey factor can be based on current world market prices but still foster financially healthy California dairy producer and processor sectors.

The Secretary will convene this special committee of producers and processors who will work to consider all options to achieve this goal. This newsletter will continue to offer updates on the progress of this special committee.

If you have any questions or need any further information, please call Dave Ikari of the Dairy Marketing Branch at 916-341-5988.

Related story on hearing decision on Page 3

California Department of Food and Agriculture
A.G. Kawamura, *Secretary*

Production, Prices, Quota Transfers, Alfalfa

November Milk Production

Milk production in California for November 2007 totaled 3.31 billion pounds, up 5.7 percent from November 2006. USDA's estimate for U.S. milk production for November 2007 in the 23 major dairy states is 13.8 billion pounds, up 3.8 percent from November 2006. Production per cow in the 23 major states averaged 1,654 pounds for October, 40 pounds above November 2006.

Minimum Class Prices

Statewide average hundredweight prices

Class	Nov.	Dec.	Jan.
1	$23.30	$23.12	$23.10
2	$22.22	$21.80	$21.80
3	$22.06	$21.64	$21.64
4a	$20.66	N/A	N/A
4b	$19.75	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Nov.	Dec.	Jan.
Phoenix, Arizona	$23.80	$22.39	N/A
Southern California	$23.43	$23.26	$23.23
Portland, Oregon	$23.35	$21.94	N/A
Northern California	$23.16	$22.99	$22.96
Boston (Northeast)	$24.70	$23.29	N.A

Quota Transfer Summary

For November 2007, two dairy producers transferred 345 pounds of SNF quota. November quota sales averaged $477 per pound of SNF (without cows), average ratio of 2.53. For December 2007, four dairy producers transferred 5,889 pounds of SNF quota. December quota sales averaged $508 per pound of SNF (without cows), average ratio of 2.38.

Alfalfa Update: December

Northern California: Premium and Supreme alfalfa were were steady with very light supplies. Good alfalfa was steady in a light test, Fair alfalfa not tested. Demand was good and supply light. Retail and Stable hay was steady with good demand and supplies light to moderate.

Southern California: Supreme and Premium alfalfa was steady in a very thin test - near the end of the month, too few confirmed sales on domestic hays to test trends. Buyer interest light as the holiday season approached, waiting for the next cutting. Retail and stable hay was steady with good demand and light supplies. Majority of hay coming out of barns now.

Supreme Hay Prices

Statewide average prices per ton

Area	11/30	12/7	12/14	12/21
Petaluma	N/A	$220	N/A	$230-245
North Valley[1]	$225	$225-235	N/A	N/A
South Valley[2]	$230	$225-250	$248	N/A
Chino Valley	N/A	$210-225	N/A	N/A

[1] North Valley is Escalon, Modesto and Turlock areas.
[2] South Valley is Tulare, Visalia and Hanford areas.

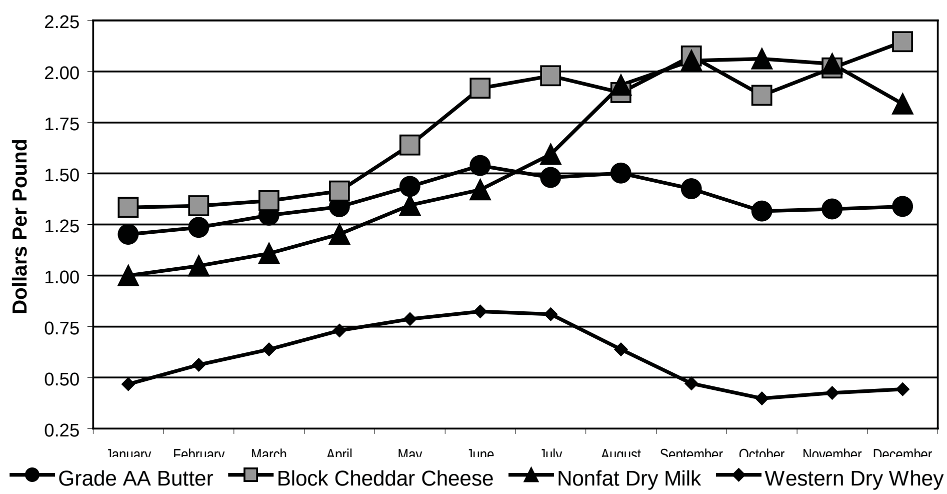
Alfalfa Hay Sales/Delivery

	November	December
Tons Sold[1]	110,671	52,618
Tons Delivered[2]	43,760	19,500

[1] For current or future delivery.
[2] Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, http://www.ams.usda.gov/marketnews.htm

Grade AA Butter, Block Cheddar Cheese, Nonfat Dry Milk, and Western Dry Whey Mostly Prices Used in the Calculation of California Class 1 Milk Prices



October 10, 11 Hearing Results:

f.o.b. California Price Adjusters

This is the first of a series of articles on the outcome of the October 2007 hearing on the Class 4a and 4b formulas. As a result of this hearing, three components of the formulas have been modified: f.o.b. California price adjusters, manufacturing cost allowances and the dry whey factor. Each month, this series of articles will feature one of these components of the formulas and will discuss their purpose in the price formulas and the reasons for the changes. This month will address the f.o.b. California price adjusters.

What is an f.o.b. price adjuster?
To ensure a fair price to producers and processors that reflects market conditions, the milk pricing formulas include commodity prices. In the current Class 4a and 4b pricing formula, three commodities are used: Cheddar cheese, butter and nonfat dry milk (NFDM). The NFDM price used in the formula is based on actual California prices. In contrast, Cheddar cheese and butter price data is not immediately available for California. Therefore, those prices come from the Chicago Mercantile Exchange (CME), where the commodities are purchased and sold. Since CME prices for Cheddar Cheese and butter are not exactly the same as the prices processors receive in California for these commodities, they need to be adjusted. Therefore, the value used to adjust those CME prices to the California prices is called the f.o.b. price adjuster.

How is the value of the f.o.b. price adjuster determined?
To get a price that is representative of sales conditions in California, the CME price needs to be adjusted. The Department has been using an adjuster for butter since the 1970's and for cheese since the mid-1990's, but these values have changed over the years. Recently, the f.o.b. price adjuster has mostly been updated every year when a hearing was called to modify the Class 4a and 4b pricing formulas. To determine this value, the Department averages the difference between the prices received by dairy product processors in California and the prices announced at the CME during the previous two years.

For the hearing, the Department calculated the average of the price differences over the previous 2 years, which were $0.0309/lb. for butter and $0.0252/lb. for cheese. Since the previous f.o.b. adjuster for butter was $0.0168/lb., it was raised to $0.0309/lb. Since the previous f.o.b. adjuster for cheese was still equal to $0.0252/lb., it remained the same.

How does a change in the f.o.b price adjuster affect the price dairy producers receive?
Changes in the f.o.b. price adjusters are usually very small, so their impact on class and pool prices is also small. Following the last hearing, the increase in the f.o.b. price adjuster for butter will result in a decrease of $0.059 in the class 4a price. This will translate in a reduction of approximately $0.023/cwt. in pool prices.

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers
Monthly: Compared to 2006, USDA estimates that overall milk production across the U.S. was up 3.2% in November, led by Arizona's 10.8% growth in milk production (on 10,000 more cows and 80 more pounds per cow). USDA reports that California's milk production was up 5.5% on 48,000 more cows and 50 more pounds per cow compared to November 2006. Among the western states, Arizona was up 10.8%; New Mexico up 1.0%; and Washington was up 5.4%. None of the top 10 states reported a production decrease.

Quarterly: For the third quarter of 2007 compared to the second quarter of 2007, U.S. milk cow numbers increased to 9.157 million, production per cow decreased 150 pounds per cow; the net effect was decreased milk production to 46.1 billion pounds. USDA projects that for the fourth quarter of 2007 compared to the third quarter of 2007, U.S. milk cow numbers will increase to 9.175 million cows, production per cow will be down 37 pounds per cow; the net effect would be decreased milk production to 45.9 billion pounds.

Milk Prices
Comparing the third quarter of 2007 to the second quarter of 2007, U.S. average milk prices were up to $21.67/cwt. USDA projects that for the fourth quarter of 2007, U.S. average all-milk prices will be $21.45-21.65/cwt.; Class 4b prices will be $19.39-19.59/cwt; and Class 4a prices will be $20.30-20.60/cwt.

Utility Cow Prices
Comparing the third quarter of 2007 to the second quarter of 2007, average U.S. utility cow prices were up $0.10/cwt. to a national average of $54.07/cwt. USDA projects that utility cow prices will average $49-50 in the fourth quarter of 2007.

Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook."

California Hay Price and Supply Situation

Seth Hoyt, California Agricultural Statistics Service

The California hay market in 2007 made a remarkable turnaround from 2006. While hay prices in the West and nationally were higher than a year ago, the California market led the pack with the highest prices in the nation. While several factors drove the higher California hay market, two of the main factors were profitability in the dairy industry, particularly the second half of the year and tighter supplies of hay.

The course of events that transpired from the summer of 2006 into the spring of 2007 will demonstrate how the imbalance of hay supply/demand occurred in California. These events created a hay market where demand outpaced supplies throughout the season and will carry into 2008. Two other factors fueling the strong hay markets were higher hay exports, particularly on Sudan grass (Sudan) and drought conditions which caused an increased amount of hay fed to beef cattle. Supplies of hay had become so depleted that even record high alfalfa hay yields in late spring and summer cuttings could not soften the market. Short supplies and record high prices of dry cow alfalfa hay led to the use of a variation of by-product feeds not previously seen in California.

Hay production and hay markets in California in 2008 will be impacted by an array of crop options not seen by growers since the mid-1990's. On the negative side, growers are facing reduced surface irrigation water supplies which will impact crops planted and crop rotations.

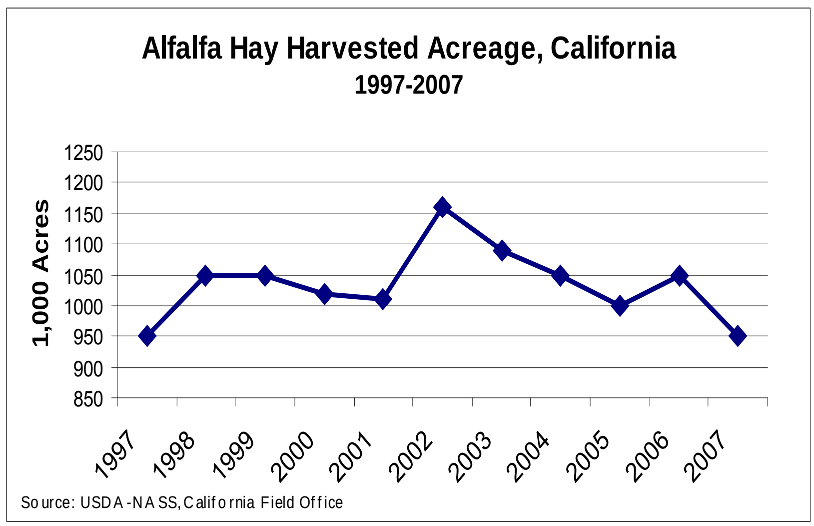
Events Leading to the Record High Alfalfa Hay Market

While it was apparent that the hay market would be higher in 2007, the sharp upward move in dry cow alfalfa hay prices in California was the hot topic for the year. To fully understand the unprecedented year-to-year change in the alfalfa hay market one must go back to the summer of 2006.

The heat wave in July 2006 that killed thousands of dairy cows in California is where the story begins. The heat wave significantly disrupted the breeding cycles of dairy cows and it took longer, in some cases three to four months longer for cows to settle. This resulted in a larger number of dry cows in California in the spring of 2007. Thus, the demand for dry cow alfalfa hay was higher than normal.

Another development was the upward surge in corn prices in the fall of 2006. This came at a most inopportune time for dairy producers who were struggling through their worst year ever financially. As a result, most dairymen reduced the amount of corn in milk cow rations and increased the pounds of alfalfa hay and corn silage. This, along with the fact that some dairies were purchasing hay hand-to-mouth due to their poor financial condition resulted in below normal hay inventories at dairies as we entered 2007.

Adding to the "Perfect Storm" of factors that pushed hay prices sharply higher were hay production, milk prices, and drought. After reaching a low of $10.00 in July 2006, overbase milk prices in California were slowly climbing in the fall and were picking up momentum into the spring of 2007. While dairymen were still trying to recover financially, the $14.63 and $16.59 cwt. milk prices in April and May, respectively, and forecasts for much higher prices into the summer of 2007 turned up the demand for hay from dairies.



***950,000 acres in 2007 is the smallest acres since 1997**

Another match that ignited hay markets was the 100,000 fewer acres of alfalfa hay in California in 2007. This was a major factor early in the year as freezing weather in January delayed the alfalfa hay harvest in the southern California desert and reduced tonnage on early cuttings in the central and northern valleys. Some dairies that were counting on early season alfalfa hay for milk cows were scrambling to find hay.

And finally, drought conditions in California, particularly in central and southern California forced beef cattle producers to feed more hay. Some beef cow operators in California that rarely feed hay, fed hay in 2007. Feedlots and growing lots fed hay to large numbers of thin feeder

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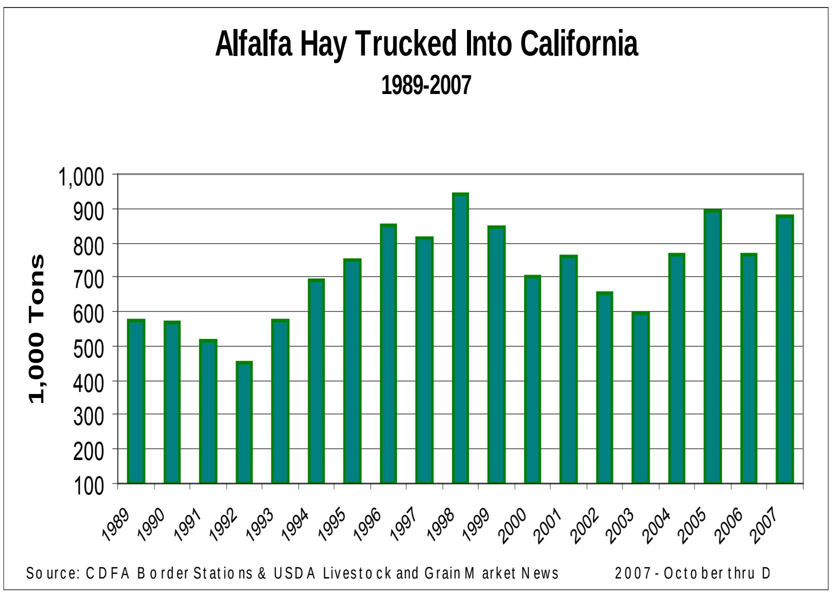
Alfalfa Hay - *Continued*

cattle that had been moved from dry foothills in central California in early spring.

All of these events led to the largest year-to-year market recovery in the history of the California hay industry. The $64.00 per ton year-to-year change in the dry cow alfalfa hay market in California far exceeded the previous record. It also led to the most diverse usage of by-product roughage feeds for dry cows ever seen in California. Some examples: corn stalks, rice straw, bean straw, wheat straw, Bermuda grass hay and straw, Sudan hay and straw.

In mid-November, Supreme alfalfa hay delivered to dairies in the Tulare, Hanford, and Bakersfield areas brought $220.00 to $248.00 per ton while Fair quality dry cow alfalfa delivered for $186.00 to $190.00 per ton, according to Market News. In the early fall, corn stalks were delivering to dairies for $80.00 to $90.00 per ton.



***July and August 2007 shipments into California totaled a record 211,000 tons, up 72 percent from the same period in 2006.**

Weak Dollar Pushes Hay Exports Higher

Hay exports from West Coast ports were higher in 2007 due to a weak dollar and strong demand from Japan. Sudan hay exports from California were up significantly from 2006 and were the main driver in the 10 percent higher exports from California in the January thru September period.

While many California dairies returned to profitability by early summer of this year, such was not the case with Japanese dairy producers. Due to an oversupply of milk, milk prices in Japan were below the cost of production much of the year. As a result, Japanese dairy hay buyers were shopping for the best prices on hay in the World and this time they found it in the U.S. Milk production in Japan dropped 2 percent in early fall, according to sources and some signals were pointing to improved milk prices. The weak U.S. dollar should keep Japanese hay buyers coming to the Western States for the best deals on hay.

The dollar exchange rate, which favored U.S. hay and other commodity exports in 2007, has become even more favorable in late 2007. For example, Sudan hay exports from California are 15-to-20 percent lower in price than the two main competitors, Canada's timothy hay and Australia's oaten hay (similar to our oat hay). While Australia has received rain recently, drought has reduced the amount of oaten hay available for export.

Tight Supplies of Alfalfa Seed

Strong domestic and export demand for alfalfa seed combined with disappointing alfalfa seed production this past summer, particularly in the Imperial Valley, caused a tight supply of alfalfa seed in California in the fall of 2007. Demand was even stronger for conventional alfalfa seed as a result of the court mandate that halted the planting of Roundup Ready alfalfa seed after March 1, 2007. A growing number of hay producers in California were planning to use Roundup Ready alfalfa seed in 2007 and 2008.

Alfalfa Hay In-Shipments very strong in 2007

With short hay supplies in California combined with many dairies around June finally climbing out of the financial hole from 2006, out-of-state hay began to roll into California in the summer. Alfalfa hay shipments in July and August were a combined record 211,000 tons, up 72 percent from the July/August shipments in 2006. It was evident that California dairy hay buyers were not going to be outbid. Another development was shipments of alfalfa hay from Montana, Wyoming, and Colorado, States that rarely ship alfalfa hay to California. Tight supplies of alfalfa hay in the West appeared to be the reason for fewer fall shipments of hay into California.

The largest year-to-year increase of alfalfa hay trucked into California was from Arizona, nearly double the amount from last year. Nevada shipments were up 8 percent. Shipments of alfalfa hay from Utah were down 12 percent but this is somewhat misleading. Hay trucked in from Utah was down substantially the first three months of 2007 as old crop supplies were reduced significantly due to a severe winter storm in Colorado in January. In the June through September 2007 period, alfalfa hay shipments from Utah were 138,637 tons, up 32 percent from the same period in 2006.

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Corn for Silage Market/Usage New High

Strong grain prices, tight supplies, and record high prices on hay pushed corn for silage acres and prices to record highs. Dairy producers were paying $30.00 to $35.00 per ton f.o.b. for corn standing in the field. Early estimates on corn for silage acres in California for 2007 were 460,000 (corn planted for all purposes minus the estimated corn harvested for grain). This compares to 405,000 acres in 2006.

Corn for silage acres may be high again in 2008 as the outlook is for continued tight hay supplies and good export demand. A limiting factor will be surface water for irrigation. It could be another year where dairy producers make offers that corn for grain growers find hard to refuse. This, combined with higher wheat acres, could reduce 2008California acres of corn for grain.

Retail/ Horse Hay Prices Strong

Record high alfalfa hay prices translated into record high prices for alfalfa hay for horses. With many horse owners feeding grass or grass/alfalfa mixes, that market was also at record highs. In November, top orchard grass and orchard grass/alfalfa mixes in the northern mountain area of California were trading from $200.00 to $220.00 per ton f.o.b. barns. Timothy hay was trading from $210.00 to $280.00 per ton f.o.b. in the summer with prices higher on barn hay in the fall.

What to Expect in 2008

Hay stocks on hand in California on December 1, 2007 may be up from the previous year due mainly to alfalfa hay imports from other States and strong alfalfa hay production in the summer. Unlike a year ago, more supplies are at the dairies and less in the hands of the growers. In my opinion, stocks could still be the second or third smallest in the past ten years. It does not appear that hay stocks will be bearish to early season hay prices.

California will not follow the historical pattern of sharply higher alfalfa hay acres following such a strong market year as 2007. Growers have the most crop options since the mid-1990's and this along with irrigation water uncertainties will temper an increase in alfalfa hay acres. Oat hay acres may also be impacted by the strong wheat market as some oat hay growers switch to wheat.

Alfalfa hay acres in the southern desert (Imperial and Palo Verde Valleys) could be down 15,000 acres in 2008. Some Imperial growers are switching to Durum wheat and Durum acres could double from 2007. One would think Sudan hay acres would increase with the prospect of another strong export year. However, starting January 1, 2008, Imperial Valley growers will be under water allotments and will no longer have the flexibility in crop rotations and water use. It appears that some growers will not have enough water in 2008 to plant Sudan after wheat and come back with vegetables in the fall.

Predicting what alfalfa hay acres will do in central and northern California is very dicey. There are areas where alfalfa hay acres are up and others where they are down. Acres will be down on the west side of the central valley that rely heavily on surface water for irrigation. If surface water allocations are 25 percent of normal from the Bureau of Reclamation (State Department of Water Resources announced November 26 an initial allocation of 25 percent for State Water Project contractors) this could push alfalfa hay acres lower in the central valley. New Alfalfa acres planted by dairies do not appear to be significant.

With lower acres in the southern desert and the west side of the central valley, alfalfa hay acres will not change much in California from 2007. However, continued dry weather and resulting low surface water allocations could push alfalfa acres lower. Conversely, above normal rain and snow pack in January and February may prompt above normal spring plantings and acres could be unchanged to slightly higher. The key to higher spring plantings will be if growers have seed on hand as alfalfa seed supplies are very tight. It would be wishful thinking to predict another 7.4 ton acre alfalfa hay yield in California in 2008 and an average yield could translate into unchanged to lower production for the State.

Wheat will displace alfalfa hay because of the strong wheat market, lower planting costs and lower water use. It is a very attractive and lower risk alternative. If irrigation water was not an issue, I believe alfalfa hay acres would unquestionably be higher in California in 2008.

Early 2008 demand and prices should be very strong for alfalfa hay as some dairies will be in need of hay early in the season. It appears that alfalfa hay production in the southern desert will be lower than 2007. The alfalfa hay market the balance of the season in California could be close to 2007. However, a drop in alfalfa hay acres due to continued drought would be bullish to the alfalfa hay market. Higher alfalfa hay prices could be tempered if milk prices fall below the cost of production.

It should be another year for strong imports of alfalfa hay from other states as California hay supplies should still be tight. The retail/horse hay market should also remain strong in 2008 in spite of a projected increase in grass hay acres in the northern mountains and older alfalfa stands being seeded with orchard grass in the northern Sacramento Valley in the fall of 2007.

Dairy Cow Losses In the Northwest

The Oregonian newspaper reports that flooding, cattle deaths and stringent regulations have farmers west of the Cascades considering bailing out.

December storms brought flooding in Lewis County in southwest Washington that took the lives of at least 750 dairy cows while dairy farmers in Oregon experienced structural damage but little or no loss of life, officials said Friday.

The losses come at a time when many Washington dairy farmers say they are grappling with increasing regulatory pressure. For some, it might be enough to push them out of the business.

Authorities in Lewis County and Tillamook County -- the epicenter of the Oregon dairy industry -- are still assessing the impact of the recent storms. Milk production from Lewis County is expected to drop and some milk could not be collected in both states because of damaged roads.

At least eight of the estimated 25 dairy farms in Lewis County lost at least a few cows. Several farms, including those with surviving stock, lost hay and feed to the floods. In response, dairy farmers in other parts of Washington started donating hay and feed. And some of these good Samaritans are prepared to donate cows to dairy farmers who want to stay in the business, said Jay Gordon, executive director of the Washington State Dairy Federation.

Some of the hardest-hit Lewis County farmers have decided to restart their operations from scratch, with help from the industry, Gordon said. Others, such as the Brunoff family of Adna, Wash., which lost about 200 organic dairy cows, haven't decided about their future.

On some farms, the hay floated away; on others the feed and hay that stayed put might be saturated with bacteria-laden water. In Oregon, farm structures were damaged but herds appear to have been unharmed.

Most of the affected Oregon dairy farmers are in Tillamook County, which has an estimated 28,000 cows.

Higher Cottonseed Yields

Cottonseed supplies will continue to be tight through early 2008, notes Tom Wedegaertner, director of cottonseed research and marketing at Cotton Inc. "Increased corn and soybean plantings cannibalized a good deal of cotton acreage, but higher yields are helping make up lost ground, thanks to ideal growing conditions in Texas," he says. On Nov. 23, the USDA forecast domestic cottonseed production to reach 6.54 million tons in 2007, up 252,000 tons from the October estimate of 6.29 million tons.

Milk-Feed Ratio Continues to Decline

The milk-feed ratio fell 0.09 points to 3.0, according to the USDA's announcement of feed-price ratios on Nov. 30. One year ago the ratio was 2.44. The USDA used an all-milk price of $21.60 to calculate the November ratio. That is 20 cents more than October and $13.90 more than last October.

Feed prices were mixed. The USDA used a corn price of $3.49 per bushel. That is 20 cents more than October and 61 cents more than a year ago. Baled alfalfa hay decreased $2 versus October. It is $135 per ton. One year ago, it was $110. Soybeans increased the most — up $1.12 per bushel to $9.48. That is $3.40 more than a year ago when the price was $6.08 per bushel.

The milk-feed ratio represents the pounds of 16-percent mixed dairy feed equal in value to 1 pound of whole milk. The price of commercial prepared dairy feed is based on current U.S. prices received for corn, soybeans and alfalfa, says the USDA. The model used to determine the ratio uses 51 percent corn, 8 percent soybeans and 41 percent alfalfa.

Secretary Appoints Members to MPSTF Board of Directors

Secretary Kawamura has appointed Pete Garbani (Land O'Lakes, Inc.) and Al Mast (Dirk-C Holsteins) to three-year terms on the Milk Producers Security Trust Fund Board of Directors. The Board is comprised of three producer members, two processor members, and two members representing cooperative associations.

The Craze Over Ethanol Seems to Be Dwindling

According to an article published in the Wall Street Journal, ethanol held the promise of greater U.S. energy independence, fewer greenhouse gases and help for the farm economy. Today, that promise is not so certain. Some critics have blamed ethanol for pushing up food prices and hurting many industries when the price of corn increases.

A recent study by the Organization for Economic Cooperation and Development concluded that biofuels "offer a cure [for oil dependence] that is worse than the disease." A National Academy of Sciences study said corn-based ethanol could strain water supplies. The American Lung Association expressed concern about a form of air pollution from burning ethanol in gasoline.

Some U.S. farmers, farm towns and ethanol companies are tied to corn-based ethanol, of which America is the largest producer. Ethanol is also a cornerstone of President Bush's push to reduce dependence on foreign oil. But some say the ethanol business has gone downhill, with decreasing profits, plans for new plants shelved in certain cases, and stock prices have plummeted.

Now the ethanol lobbyists are pleading with Congress to boost the amount of ethanol that oil refiners must blend into gasoline. But the livestock, packaged-food and oil industries are on the opposite side and are persuading lawmakers not to adopt such increases.

The Oil Price Information Services reported ethanol prices peaked at about $5 a gallon in some markets in June 2006. The price soon began to slide as the limited market for gasoline containing 10% ethanol grew saturated. New plants kept coming online, increasing supply and dropping prices further. The low prices reflect soaring output. Global ethanol production has grown to a projected 13.4 billion gallons this year, from 10.9 billion gallons in 2006, according to the International Energy Agency. The U.S. production is more than half of that total, or about seven billion gallons this year, up 80% in two years, yet it equals less than 4% of U.S. gasoline consumption.

Analysts expect U.S. production capacity to keep growing, encouraged both by high oil prices and by the hope that Congress will stiffen the mandate for refiners to use ethanol. Time will tell the rest of the story on ethanol production and its overall impact on the economy and the environment.

Assessment Updates

Dairy Marketing Branch:
The Secretary of Food and Agriculture is mandated to establish a Market Milk Administration Fee (Fee) on market milk (Grade A) and manufacturing milk (Grade B) sold into commercial trade channels in California to fund the operations of the Dairy Marketing Branch. Last spring, the Branch determined that it had sufficient funds to administer the program without continuing to collect the Fee. As such, the Fee was suspended as of May 1, 2007 and has remained in suspension for the past several months.

The Branch's cash balance is currently at a level such that it is necessary to reestablish the Fee. The Fee will be at a reduced rate of one and two-tenths cents ($0.012) per hundredweight for market milk (Grade A) and six-tenths of one cent ($0.006) per hundredweight for manufacturing milk (Grade B). Two-thirds of the assessment is paid by producers of market milk and one-third is paid by handlers of market milk. The Fee will go into effect with milk received by market milk handlers beginning January 1, 2008.

Milk Pooling
In February of 2004, the Department adjusted the Milk Pooling Administrative Fee collected from market milk producers to fund the operations of the Milk Pooling Branch. The fee was reinstated to 1.1 cents ($0.011) per hundredweight of milk after the Branch's cash reserves reached an appropriate level.

At its meeting on October 5, 2007, the Producer Review Board received an update on the Branch's current fiscal year budget and unanimously voted to recommend that the Department temporarily suspend the Pool Administrative Fee in order to reduce the Branch's operating reserve.

The Department will temporarily suspend the Milk Pooling Administrative Fee effective January l, 2008 through March 31, 2008. It is anticipated that the suspension will bring the operating reserves for the branch down from five months to two months. Beginning April 1, 2008 the Pool Administrative fee will be reinstated to 1.1 cents ($0.011) per hundredweight.

Pool Prices

Month	Quota	Overbase
April '06	$11.90	$10.20
May	$11.90	$10.20
June	$11.90	$10.20
July	$11.71	$10.01
August	$12.13	$10.43
September	$12.80	$11.10
October	$12.87	$11.17
November	$13.31	$11.61
December	$13.50	$11.80
January '07	$13.70	$12.00
February	$14.45	$12.75
March	$15.28	$13.58
April	$16.33	$14.63
May	$18.29	$16.59
June	$20.70	$19.00
July	$21.60	$19.90
August	$21.74	$20.04
September	$21.69	$19.99
October	$21.16	$19.46
November	$21.93	$20.23

Milk Mailbox Prices

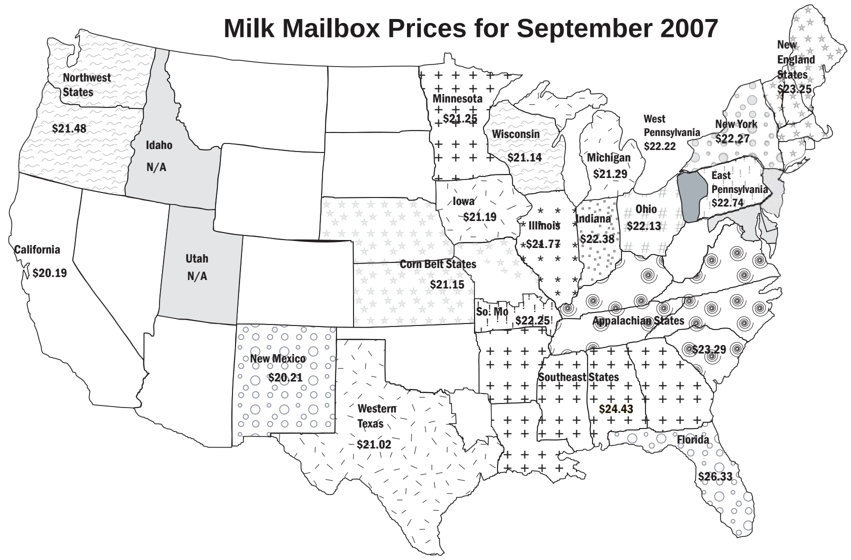
Milk Mailbox Prices in Dollars per Hundredweight

	March	April	May	June	July	August	September
California [1]	$13.89	$14.83	$16.77	$19.12	$19.98	$20.06	$20.19
USDA[2]	$15.60	$16.45	$17.78	$19.80	$21.49	$21.47	$21.78

[1] California mailbox price calculated by CDFA.

[2] All federal milk market order weighted average, as calculated by USDA.

Milk Mailbox Prices for September 2007



In September 2007, mailbox milk prices for selected reporting areas in Federal milk orders averaged $21.78 per cwt., a new record mailbox price. This price exceeds the July 2007 (the former record month) by $.29 per cwt. The component tests of producer milk in September 2007 were: butterfat: 3.63%; protein, 3.04%; and other solids, 5.71%. On an individual reporting area basis, mailbox prices increased in all Federal milk order reporting areas except in the Appalachian States, and ranged from $26.33 in Florida to $20.21 in New Mexico. In September 2006, the Federal milk order all-area average mailbox price was $12.88, $8.90 lower.

California Department of Food and Agriculture
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The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper at (916) 341-5988 or send an email to dairy@cdfa.ca.gov

Milk Pricing Information:
Within California 1-800-503-3490
Outside California 1-916-442-MILK

Dairy Marketing Branch:
Phone (916) 341-5988; Fax (916) 341-6697
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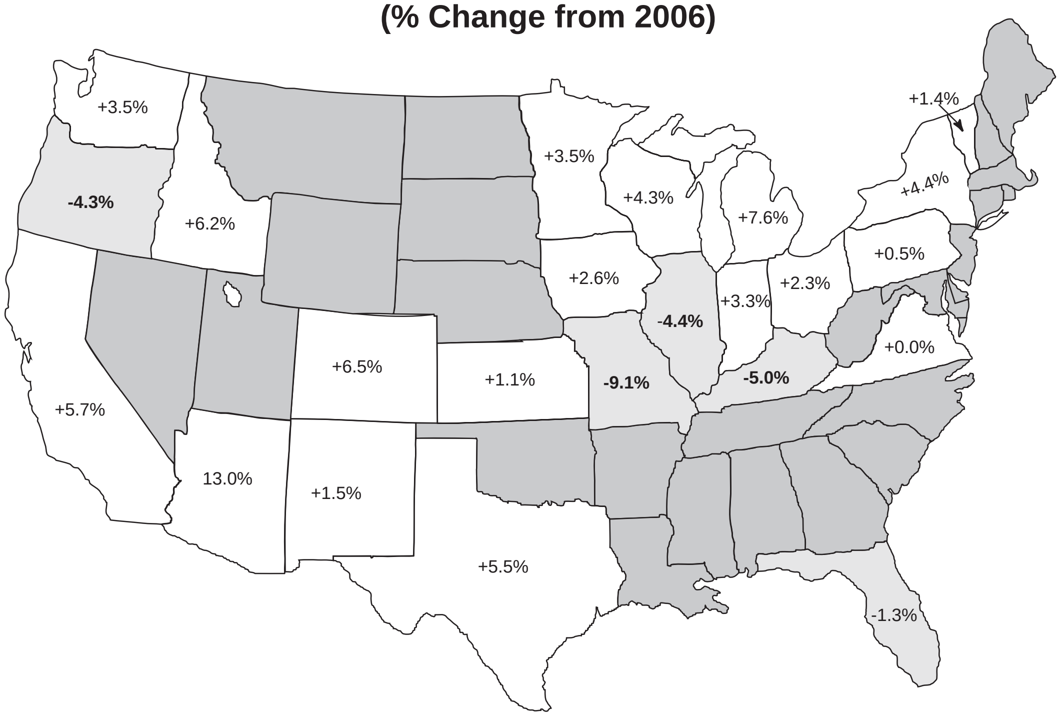
November Milk Production in the Top 23 States

(% Change from 2006)



<u>For the U.S. overall, comparing November 2007 to November 2006:</u>

- U.S. Milk production during November was up 3.2%
- The number of cows on farms was 9.175 million head, up 60,000 head
- Production per cow averaged 1,634 pounds, 45 pounds more than November 2006
- Five of the top twenty-three milk producing states showed a decrease in milk production

As reported by USDA
and CDFA (for California)

Milk Production Cost Comparison Summary for California [1/]

By Quarter, 2006-2007

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	Dollars per Hundredweight									
1st Quarter										
Total Costs	15.35	17.52	12.32	13.33	11.72	13.16	11.76	13.17	12.01	13.31
Total Costs & Allowances*	16.93	19.27	13.82	14.86	13.24	14.76	13.07	14.55	13.52	14.87
2nd Quarter										
Total Costs	14.22	16.23	12.36	13.41	12.47	13.51	11.99	13.00	12.43	13.49
Total Costs & Allowances*	15.76	18.15	13.88	15.13	14.00	15.29	13.31	14.53	13.94	15.25
3rd Quarter										
Total Costs	14.62	17.12	12.58	13.62	12.73	14.20	12.56	13.76	12.71	14.01
Total Costs & Allowances*	16.14	19.24	14.10	15.51	14.33	16.24	13.90	15.52	14.26	15.98
4th Quarter										
Total Costs	16.99		13.47		13.25		13.23		13.41	
Total Costs & Allowances*	18.62		15.01		14.84		14.59		14.97	

* Includes an allowance for management and a return on investment

Pool Prices

Month	Quota	Overbase
April ‘06	$11.90	$10.20
May	$11.90	$10.20
June	$11.90	$10.20
July	$11.71	$10.01
August	$12.13	$10.43
September	$12.80	$11.10
October	$12.87	$11.17
November	$13.31	$11.61
December	$13.50	$11.80
January ‘07	$13.70	$12.00
February	$14.45	$12.75
March	$15.28	$13.58
April	$16.33	$14.63
May	$18.29	$16.59
June	$20.70	$19.00
July	$21.60	$19.90
August	$21.74	$20.04
September	$21.69	$19.99
October	$21.16	$19.46
November	$21.93	$20.23

Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

	March	April	May	June	July	August	September
California [1]	$13.89	$14.83	$16.77	$19.12	$19.98	$20.06	$20.19
USDA[2]	$15.60	$16.45	$17.78	$19.80	$21.49	$21.47	$21.78

1 California mailbox price calculated by CDFA.

2 All federal milk market order weighted average, as calculated by USDA.

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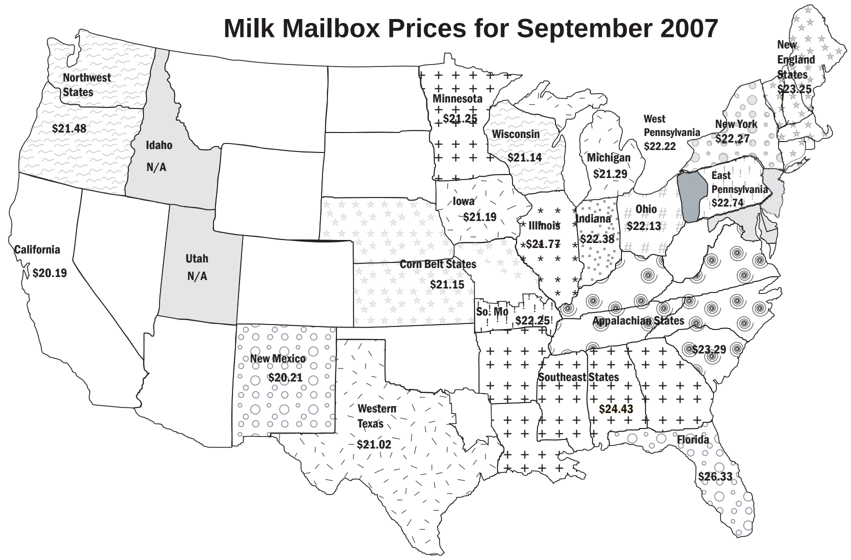

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